



Presentation to the City of Houston Budget and Fiscal Affairs Committee

FY2021 Budget Overview and
General Fund Five Year Forecast

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Forward Looking Statements-pending

The statements contained in this presentation and made verbally in conjunction with the presentation that are not purely historical are forward looking statements, including statements regarding the City's expectations, intentions, or strategies regarding the future. Readers and viewers should not place undue reliance on forward looking statements. All forward looking statements in this presentation and made verbally in conjunction with the presentation are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward looking statements.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or development in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward looking statements included in this presentation and made verbally in conjunction with the presentation would prove to be accurate and may be materially different.

Forward Looking Statements (Cont'd.)-pending

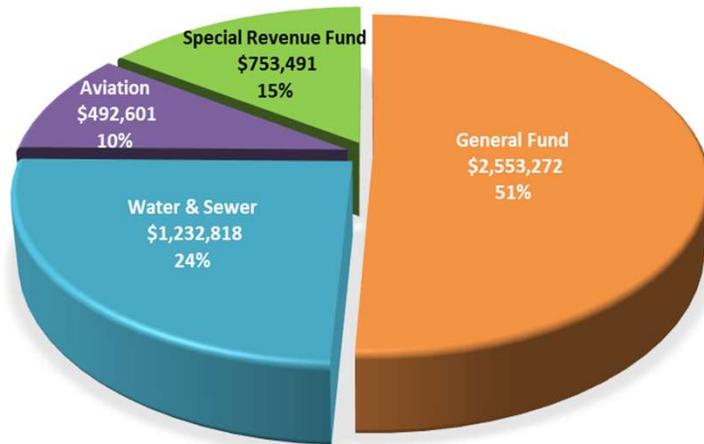


Additionally, pension-related projections or forecasts, including projections of the amount of the UAAL and net pension liability and the amounts of actuarially calculated contributions by the City, constitute “forward-looking” information that reflects the judgment of the City, the boards of the Pension Systems and the actuaries as to the amount of assets that will be required to be accumulated for the payment of future benefits to both active and retired employees. Such judgments are based upon a variety of assumptions concerning future events and circumstances, any one or more of which could prove to be inaccurate and are subject to change in the future. The assumptions underlying the projections are material to the development of the projections, and variations in the assumptions may produce substantially different results.

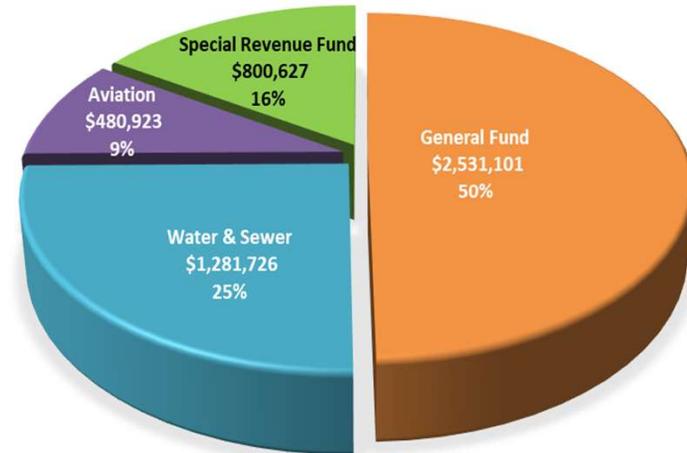
Citywide Expenditures Including Debt Service & PAYGO (\$ in thousands)



**FY2020 CURRENT BUDGET
OF \$5,032,181**



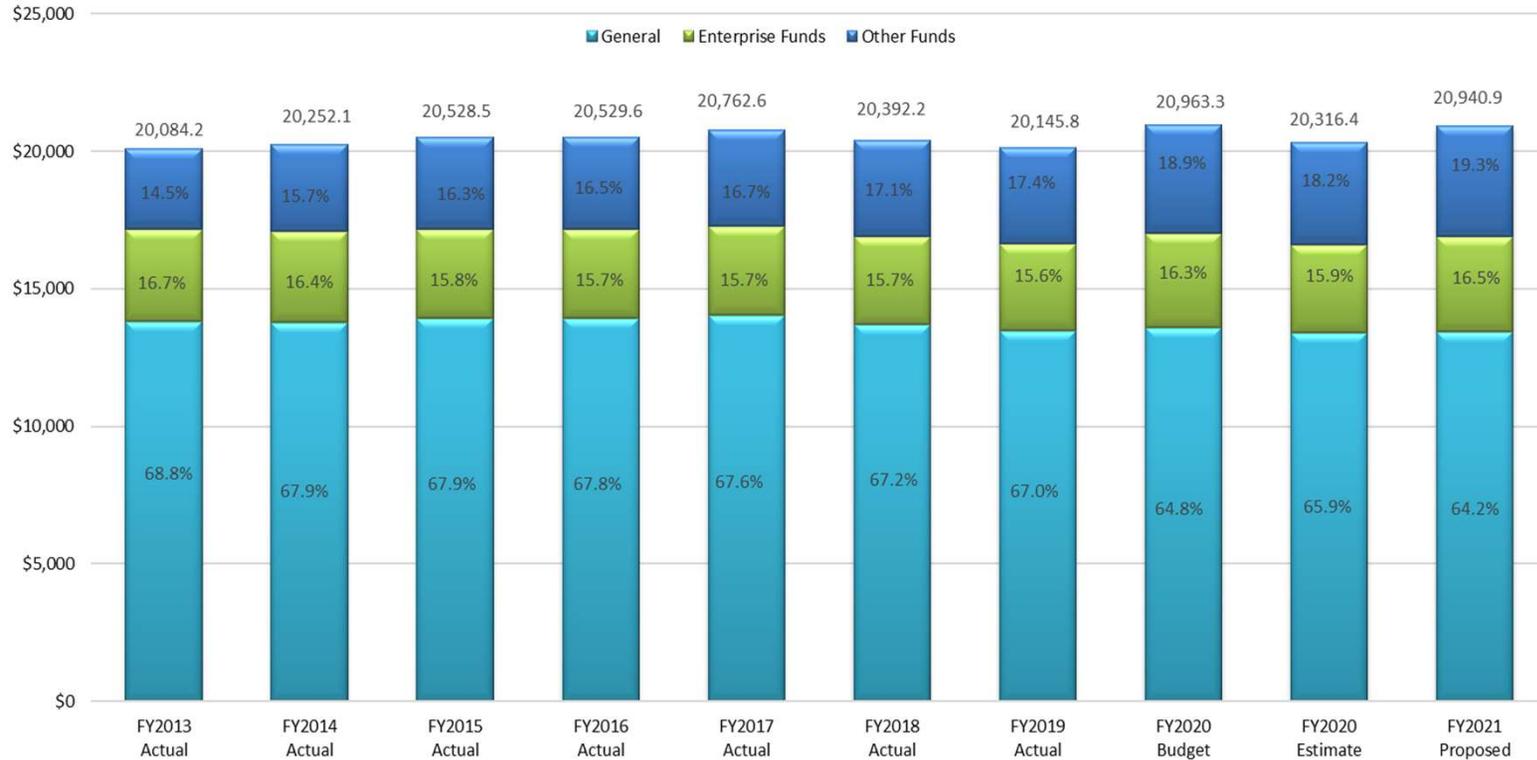
**FY2021 PROPOSED BUDGET
OF \$5,094,377**



**Net Change
\$62,196
1.24%**

Note: Expenditures budget above represent the total budget including General Fund, Special and Enterprise Funds. Total do not include Service Chargeback and Internal Service Funds.

Citywide Full-Time Equivalents

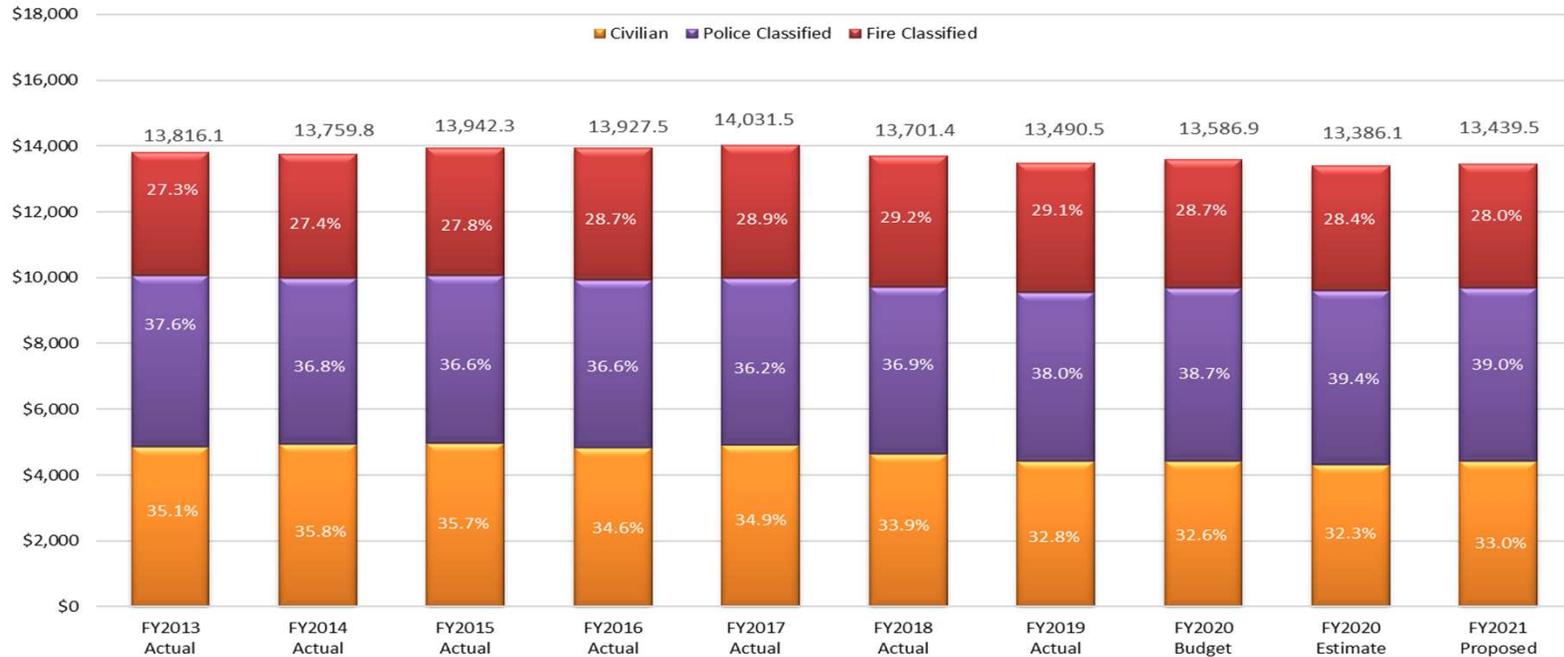


General	13,816.1	13,759.8	13,942.3	13,927.5	14,031.5	13,701.4	13,490.5	13,586.9	13,386.1	13,439.5
Enterprise Funds	3,363.7	3,319.4	3,235.3	3,219.0	3,254.5	3,206.5	3,147.2	3,410.5	3,227.3	3,456.5
Other Funds	2,904.4	3,172.9	3,350.9	3,383.1	3,476.6	3,484.3	3,508.1	3,965.9	3,703.0	4,044.9
Grand Total	20,084.2	20,252.1	20,528.5	20,529.6	20,762.6	20,392.2	20,145.8	20,963.3	20,316.4	20,940.9

Note: Citywide FTEs include General Fund, Enterprise, Special, Internal Service/Service Chargeback Funds.



General Fund Full-Time Equivalents



Civilian	4,851.9	4,924.5	4,970.9	4,825.8	4,896.3	4,646.2	4,430.4	4,429.9	4,322.2	4,429.9
Police Classified	5,196.1	5,063.3	5,100.4	5,100.4	5,081.0	5,059.7	5,128.0	5,256.0	5,268.5	5,240.3
Fire Classified	3,768.1	3,772.0	3,871.0	4,001.3	4,054.2	3,995.5	3,932.1	3,901.0	3,795.4	3,769.3
Grand Total	13,816.1	13,759.8	13,942.3	13,927.5	14,031.5	13,701.4	13,490.5	13,586.9	13,386.1	13,439.5

Note:

1. Cadets are included with Civilian.
2. FY2021 Proposed Budget includes suspension of 5 Police cadet classes.
3. FY2021 Proposed Budget includes 3 Fire cadet classes.



General Fund Budget Overview

This budget includes:

- 7.15% Fund Balance of expenditures less debt service and pay-as-you-go transfers, below the desired minimum of 7.5%
 - Per the financial policies, the unassigned fund balance may be temporarily reduced below the minimum to provide short-term resources in the event of economic instability
- Population growth assumption based on Planning Department's July 2019 estimates of 0.7681%
- \$15.0 million undesignated Budget Stabilization Fund
- \$14.5 million in new revenue sources
- \$13.9 million reduction for suspension of HPD cadet classes
- \$13.7 million reduction in contingency



General Fund Budget Overview

This budget includes:

- \$10.4 million Zoo payment reduction/transfer that is permissible under the CARES Act
- \$7.1 million savings for civilian furloughs
- \$5.2 million debt pre-payment from the Building Inspection Fund
- \$5.0 million rent deferral for 611 Walker Building
- \$884,000 in department reductions

Additionally, this budget:

- Fully fund all three pension systems

Closing the FY2021 Gap



<i>(\$ in thousands)</i>		
Additional Revenues		
Digital Network	\$ 10,000	Recurring
Sustained Cart Support	\$ 4,500	Recurring
Total Additional Revenues	\$ 14,500	
Expenditures Reductions		
Suspend HPD Five Cadets Classes	\$ 13,942	Non-Recurring
Remove Compensation Contingency	\$ 13,714	Non-Recurring
Zoo Reduction/Transfer ¹	\$ 10,408	Non-Recurring
Civilian Furlough	\$ 7,069	Non-Recurring
HPW Debt Prepayment ²	\$ 5,200	Non-Recurring
611 Walker Deferral ³	\$ 4,986	Non-Recurring
Approved Department Deduction	\$ 884	Recurring
Total Expenditures Reductions	\$ 56,203	
Fund Balance Drawdown		
Fund Balance Drawdown ⁴	\$ 97,817	Non-Recurring
Fund Balance Drawdown	\$ 97,817	Non-Recurring
GAP	\$ 168,520	

Note:

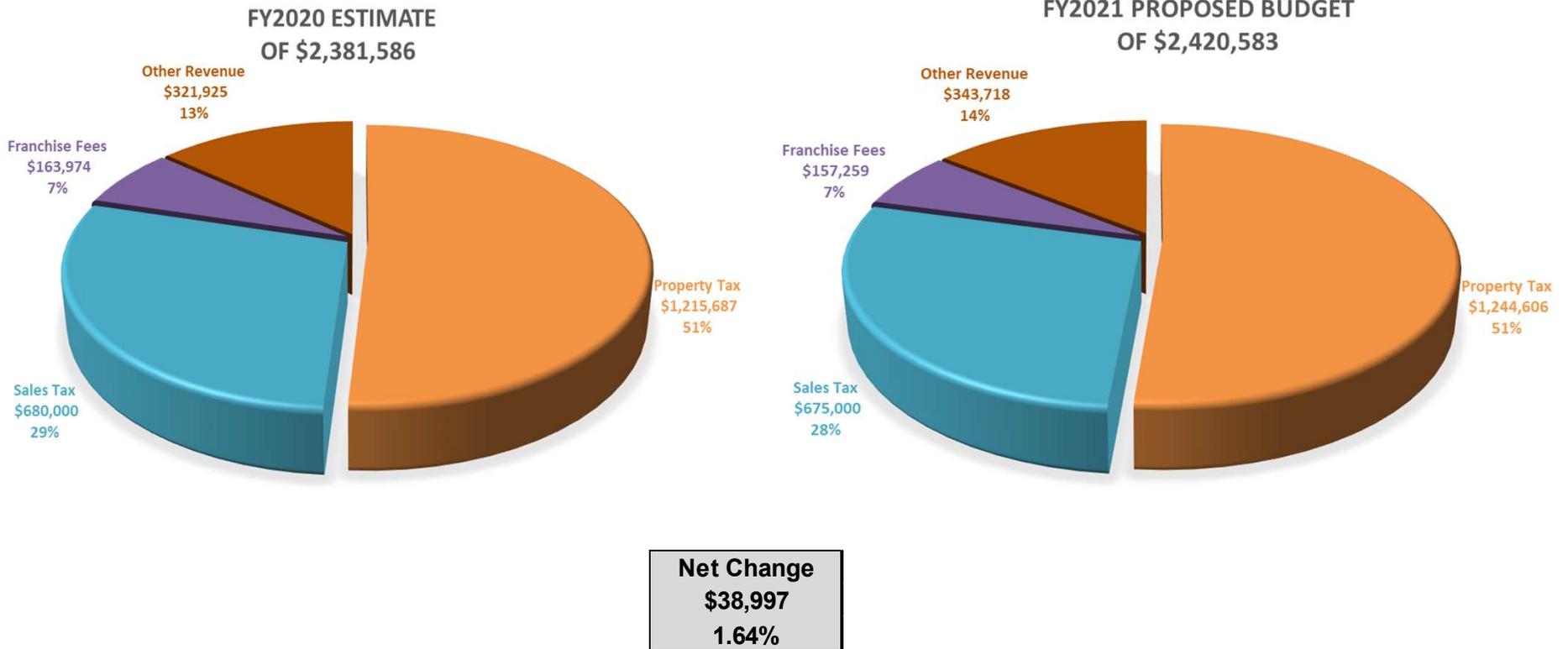
1. Zoo payment reduction/transfer that is permissible under the CARES Act.
2. Debt prepayment from the Building Inspection Fund.
3. Defer 611 Walker rent payment to CUS.
4. Includes \$15 million undesignated Budget Stabilization Fund Reserve for COVID-19 economic hardship.

FY2021 General Fund Revenue Including Other Resources Net Change vs FY2020 Estimates



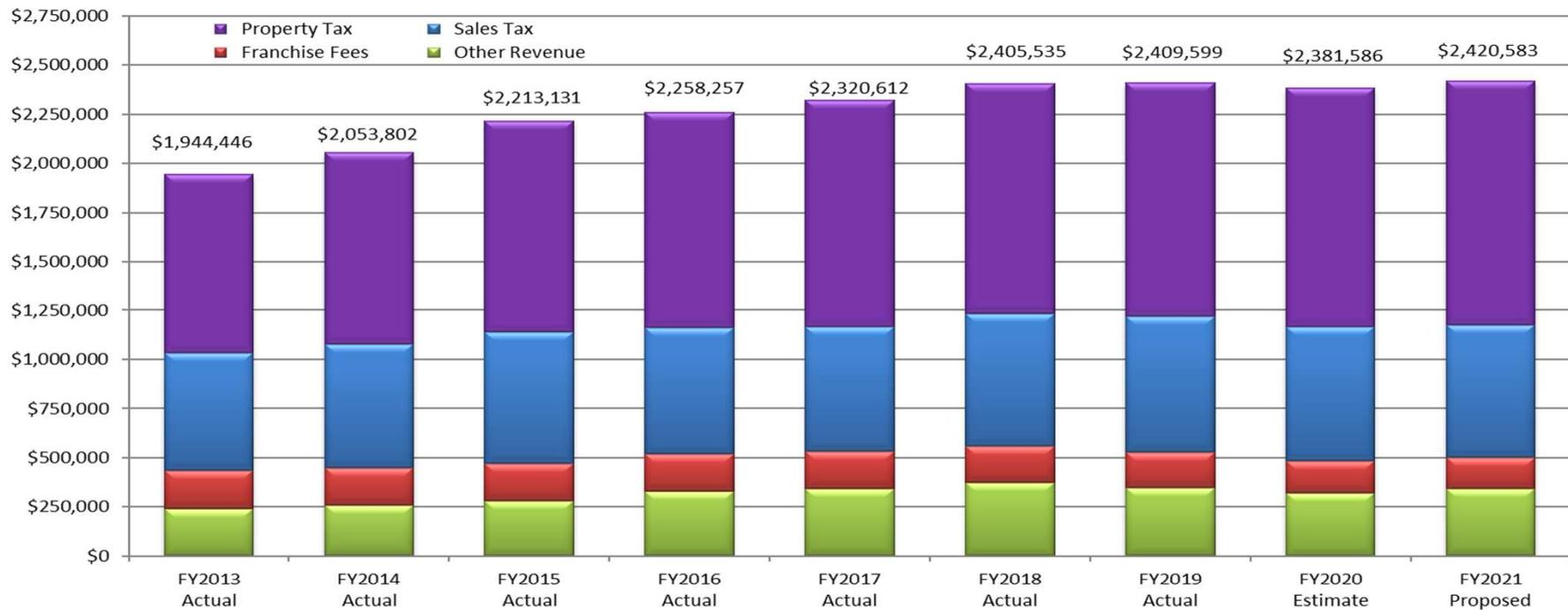
FY2021 General Fund Revenues - Net change to FY20 Estimates (\$ in thousands)		
FY2020 Estimates incl. Other Resources	\$	2,421,164
FY2021 Proposed Budget incl. Other Resources		2,433,282
Incremental Increase/(Decrease)	\$	12,118
		0.50%
Revenue Increases/(Decreases):		
Sale of Capital Assets ¹		(19,122)
Transfers from Other Funds ²		(7,757)
Franchise Fees ³		(6,716)
Sales Tax ⁴		(5,000)
Interfund Services ⁵		(3,103)
Interest ⁶		(430)
Others ⁷		266
Municipal Courts Fines and Forfeits ⁸		1,586
Other Tax ⁹		2,195
Intergovernmental ¹⁰		2,946
Charges for Services ¹¹		18,334
Property Tax ¹²		28,919
Net Change of Revenues	\$	12,118
Note:		
1. Decrease primarily due to one-time land sales in FY2020.		
2. Decrease primarily due to one-time transfers from Special Revenue Fund and Grants in FY2020.		
3. Decrease due to decline in franchise fees for telephone, cable TV and electric due to Texas Senate Bill 1152.		
4. Decrease due to anticipated lower sales tax receipts affected by COVID-19.		
5. Decrease primarily due to the Indirect Cost Allocation Plan.		
6. Decrease due to lower than anticipated cash receipts.		
7. Increase primarily due to higher than anticipated recoveries & refunds and other fines and forfeits receipts.		
8. Increase primarily due to higher than anticipated moving violation and non-traffic fines receipts.		
9. Increase due to anticipated higher mixed beverage tax receipts.		
10. Increase due to a change in reimbursement of the 1115 Health Waiver Program offset by less TIRZ revenues and ambulance services supplemental reimbursement.		
11. Increase primarily due to additional revenue for digital network and container lease fees.		
12. FY2021 Proposed Budget is based on Proposition 1+H.		

FY2021 General Fund Revenue Excluding Other Resources (\$ in Thousands)



Note: Other Resources include Sale of Capital Assets and Transfers from Other Funds.

General Fund Revenues Excluding Other Resources FY2013 – FY2021 (\$ in Thousands)



Property Tax	\$ 910,034	\$ 976,240	\$ 1,074,435	\$ 1,098,664	\$ 1,153,991	\$ 1,172,543	\$ 1,190,243	\$ 1,215,687	\$ 1,244,606
Sales Tax	\$ 600,256	\$ 629,441	\$ 667,061	\$ 640,476	\$ 631,993	\$ 674,279	\$ 692,271	\$ 680,000	\$ 675,000
Franchise Fees	\$ 195,304	\$ 189,989	\$ 189,837	\$ 191,168	\$ 190,586	\$ 185,774	\$ 179,640	\$ 163,974	\$ 157,259
Other Revenue	\$ 238,852	\$ 258,133	\$ 281,798	\$ 327,949	\$ 344,042	\$ 372,939	\$ 347,445	\$ 321,925	\$ 343,718
Total GF Revenues	\$ 1,944,446	\$ 2,053,802	\$ 2,213,131	\$ 2,258,257	\$ 2,320,612	\$ 2,405,535	\$ 2,409,599	\$ 2,381,586	\$ 2,420,583
Change YOY (\$)	\$ 141,752	\$ 109,356	\$ 159,329	\$ 45,126	\$ 62,355	\$ 84,923	\$ 4,063	\$ (28,012)	\$ 38,997
Change YOY (%)	7.86%	5.62%	7.76%	2.04%	2.76%	3.66%	0.17%	-1.16%	1.64%

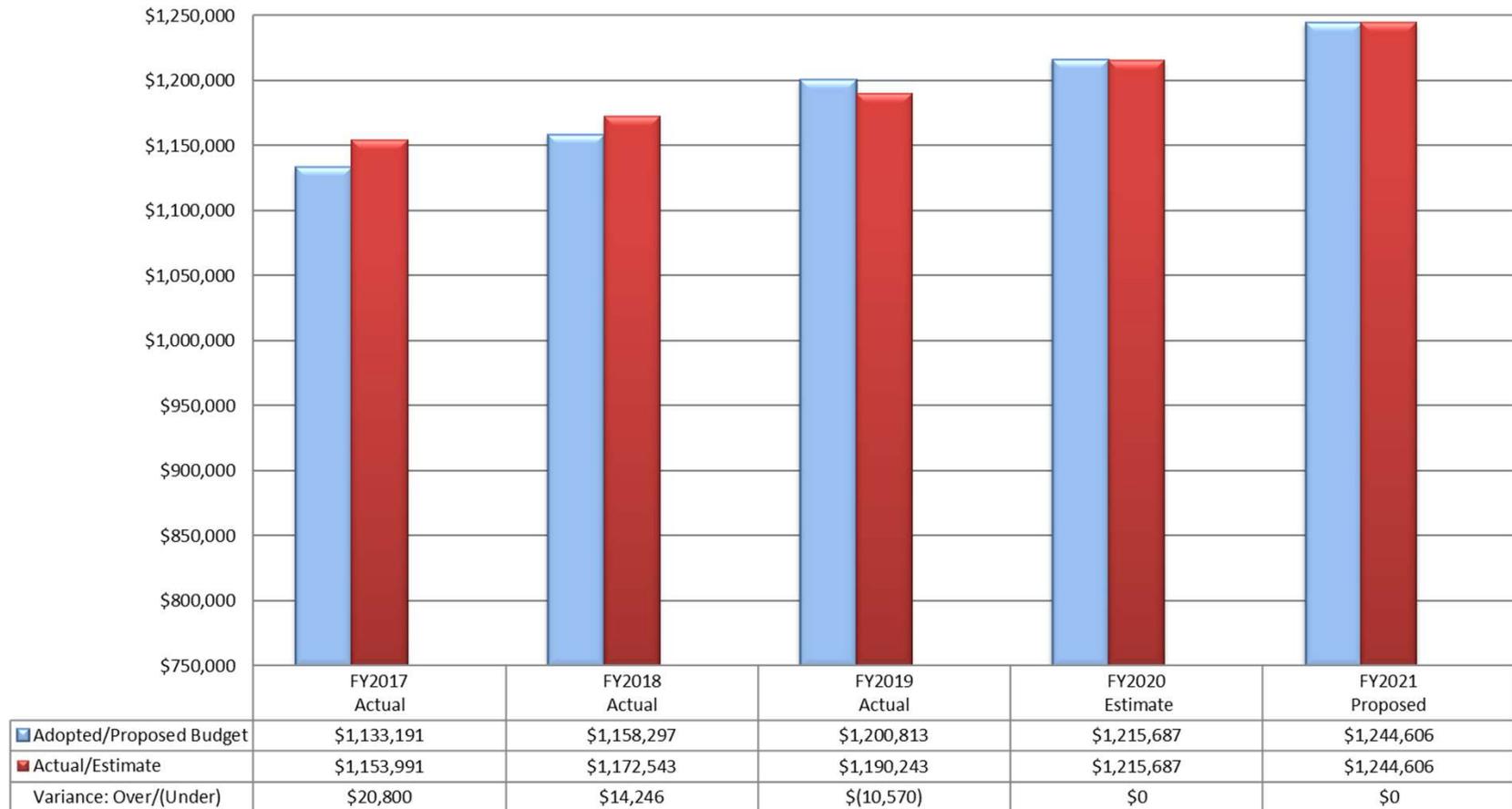
Property Tax Revenue



- Assumptions:
 - Estimated taxable value of \$259.4 billion, which is an increase of 6.58%.
 - The estimated taxable value net of the tax increment agreements is \$223.6 billion.
 - In compliance with Prop 1+H limitations, CPI + Population equal to 2.04%. Annual CPI change is 1.27% and estimated population change of 0.77% based on Planning Department's estimate as of July 1, 2019.
 - An increase in property tax revenue of 2.38%, which is \$28.9 million higher than FY2020 estimates.

Trends in Property Tax Revenues

FY2017 - FY2021 (\$ in Thousands)



Adopted Budget vs. Charter Cap

FY2015 - FY2021 (\$ in Thousands)



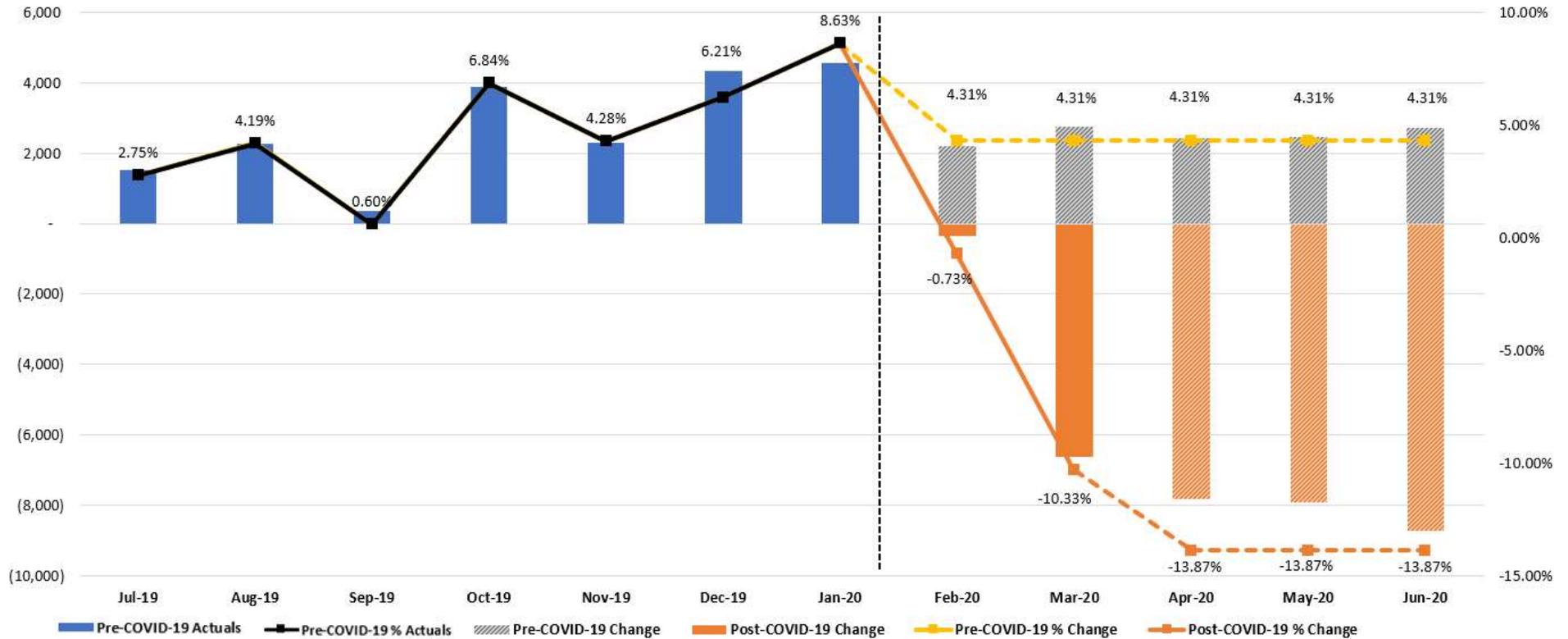
Property Tax Revenue	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Adopted/Proposed Budget	\$ 1,067,338	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297	\$ 1,200,813	\$ 1,215,687	\$ 1,244,606
Prop 1 + H Cap	\$ 1,067,338	\$ 1,129,976	\$ 1,144,481	\$ 1,158,297	\$ 1,183,525	\$ 1,215,687	\$ 1,244,606
Full Impact of the Cap*	\$ 19,930	\$ 71,420	\$ 138,374	\$ 150,201	\$ 135,421	\$ 202,006	\$ 186,810

* Since FY2015, the full impact of the property tax revenue cap is \$904 million.

COVID-19 Impact on FY2020 Sales Tax (\$ in Thousands)



FY2020 Sales Tax Change
Current vs Prior Year



Pre-COVID-19:

- Average growth of 4.8% from July to January
- Projections reflect the midpoint of consultants' ranges, which is \$724M
- Remaining months would have had to come in at 4.31%

Post-COVID-19

- February was the first month of negative growth
- March saw a decline of 10.33%
- Remaining months are currently estimated to be down 13.87% to reach current estimate of \$680M

Sales Tax Revenue



- Assumption:
 - \$5.0 million or 0.74% lower than FY2020 estimates. This estimate is conservative due to the nature of the pandemic that is affecting our national and global economy. This estimate is also supported by the uncertainty regarding the path of oil prices and changes in our employment growth and/or decline. This assumption is derived from econometric models which are influenced by several factors of the Houston economy, including estimates of oil prices, employment, and the Primary Metropolitan Statistical Area (PMSA) retail sales.
 - Pre-COVID-19, consultants (Dr. Gilmer and Mike Loftin) projected that City of Houston potential sales tax revenue for FY2021 could range from \$699M to \$776M, with a midpoint of \$738M.
 - Post-COVID-19, there has been a lot of uncertainty in the economy as a result of the pandemic. Their projections for potential sales tax revenue for FY2021 currently range from \$650M to \$720M.

Trends in Sales Tax Revenues FY2017 - FY2021 (\$ in Thousands)



Note: Pre-COVID-19 projections reflect the midpoint of consultant ranges.

FY2021 General Fund Expenditures Net Change vs. FY2020 Current Budget

(\$ in Thousands)



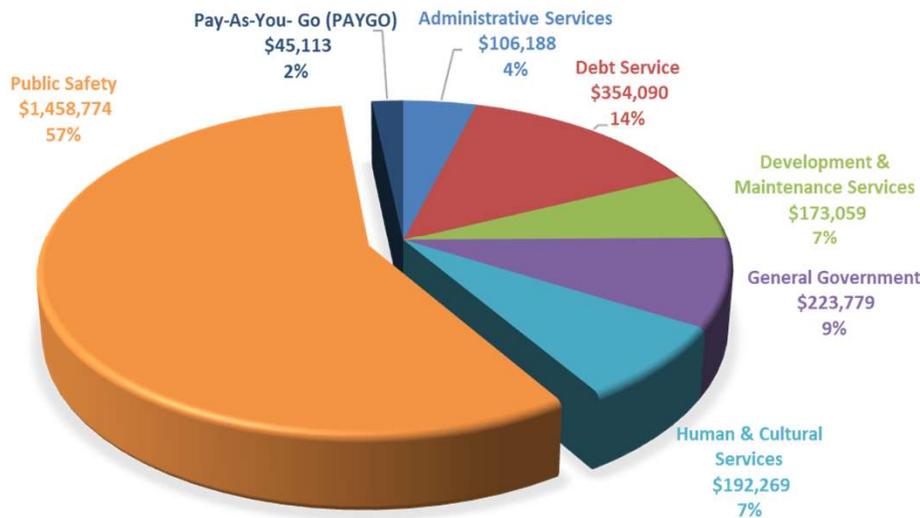
FY2021 General Fund Exp - Net change to FY20 Current Budget	
(\$ in thousands)	
FY2020 Current Budget	\$ 2,553,272
FY2021 Proposed Budget	2,531,101
Incremental Increase/(Decrease)	(22,171)
	-0.87%
<u>Operating Budget Adjustments</u>	
Classified Personnel ¹	26,800
Service Chargeback ²	10,662
Civilian Personnel ³	2,643
Pension	1,188
Health Benefits	(2,951)
Limited Purpose Annexation Payment	(3,875)
Other Services & Charges ⁴	(5,612)
611 Walker Deferral	(4,986)
Civilian Furlough	(7,069)
Zoo Payment Transfer	(10,408)
Remove Contingency	(13,714)
Suspend HPD Classes	(13,942)
Subtotal Operating	(21,265)
<u>Debt Service Adjustments</u>	
Debt Service and PAYGO	4,294
HPW Debt prepayment	(5,200)
Subtotal Debt Service	(906)
Net Change of Expenditures	\$ (22,171)
Note:	
1. Includes cost for HPD pay increase (3%).	
2. Increase due to new chargeback cost related to the HITS Radio consolidation. offset by decrease in HITS General Fund cost. All cost for HITS are now reported in the Central Service Revolving Fund.	
3. Includes cost for municipal pay raises (1%) offset with reductions for HITS Radio consolidation and department savings initiatives.	
4. Reduction due to HITS Radio consolidation and one-time costs for Solid Waste Department.	

General Fund Expenditures Including Debt Service & PAYGO

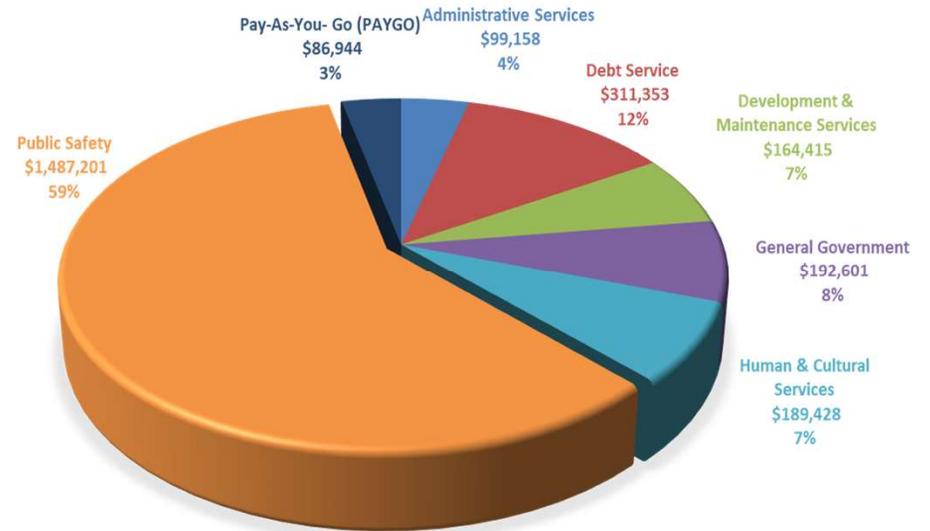
(\$ in Thousands)



FY2020 CURRENT BUDGET
\$2,553,272



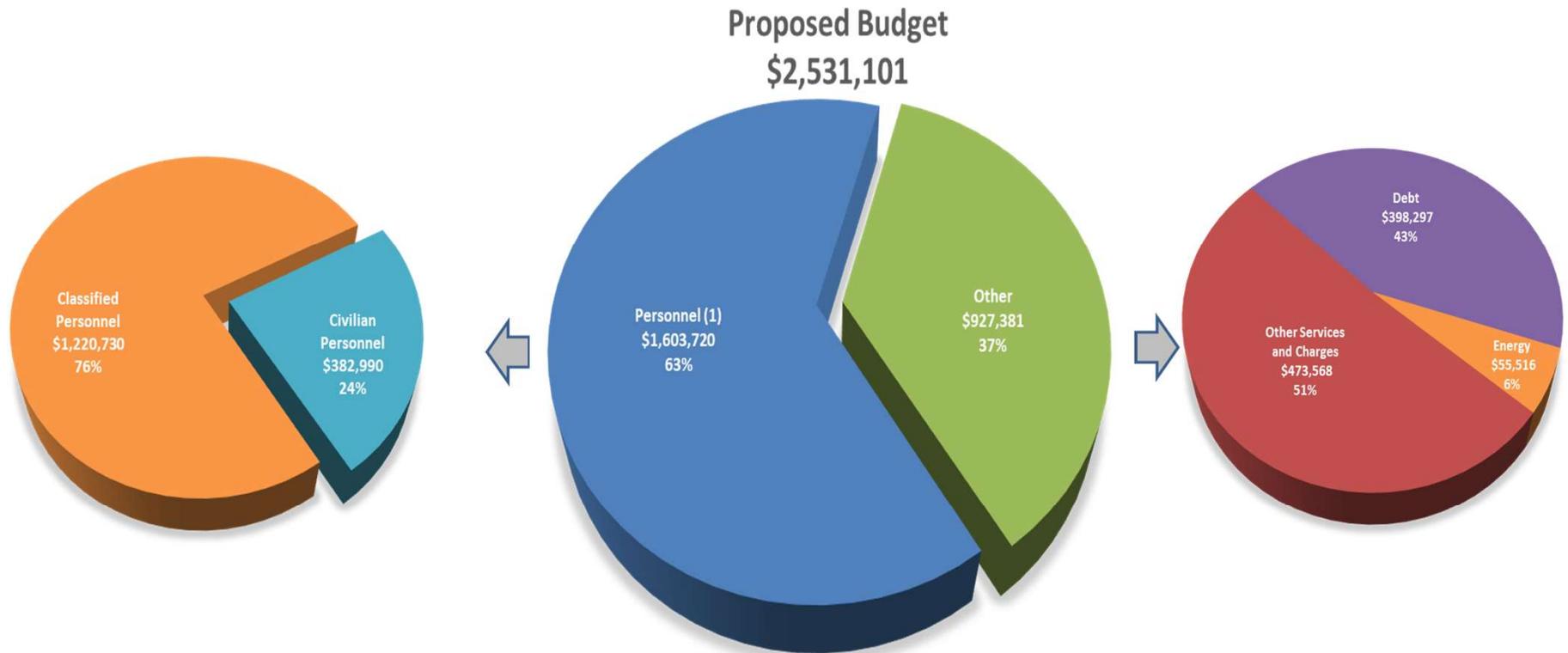
FY2021 PROPOSED BUDGET
\$2,531,101



Net Change
\$ (22,171)
-0.9%

Public Safety: Police, Fire, Houston Emergency Center (HEC), Municipal Courts
 Other: General Services, Planning & Development, Houston Public Works, Solid Waste
 Houston Health Department, Housing, Library, Neighborhoods, and Parks
 Administration and Regulatory Affairs, Controller, City Council, City Secretary, Finance, Human Resources,
 Houston Information Technology Service (HITS), Legal, Mayor's Office, Office of Business Opportunity

FY2021 General Fund Expenditures Personnel vs. Non Personnel (\$ in Thousands)

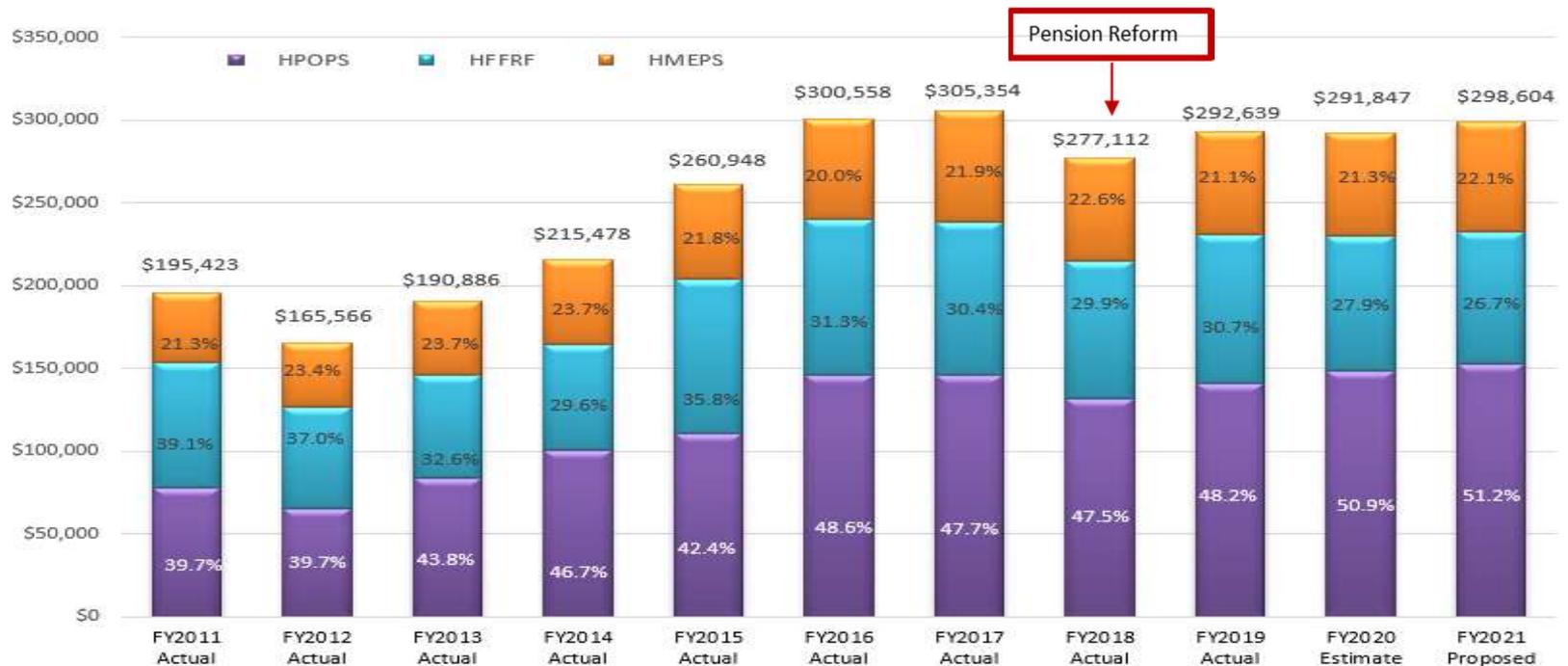


(1) Includes items such as salary, FICA, pension, health benefits, overtime, workers' comp, other pays, temp personnel, etc.



General Fund Pension Contributions

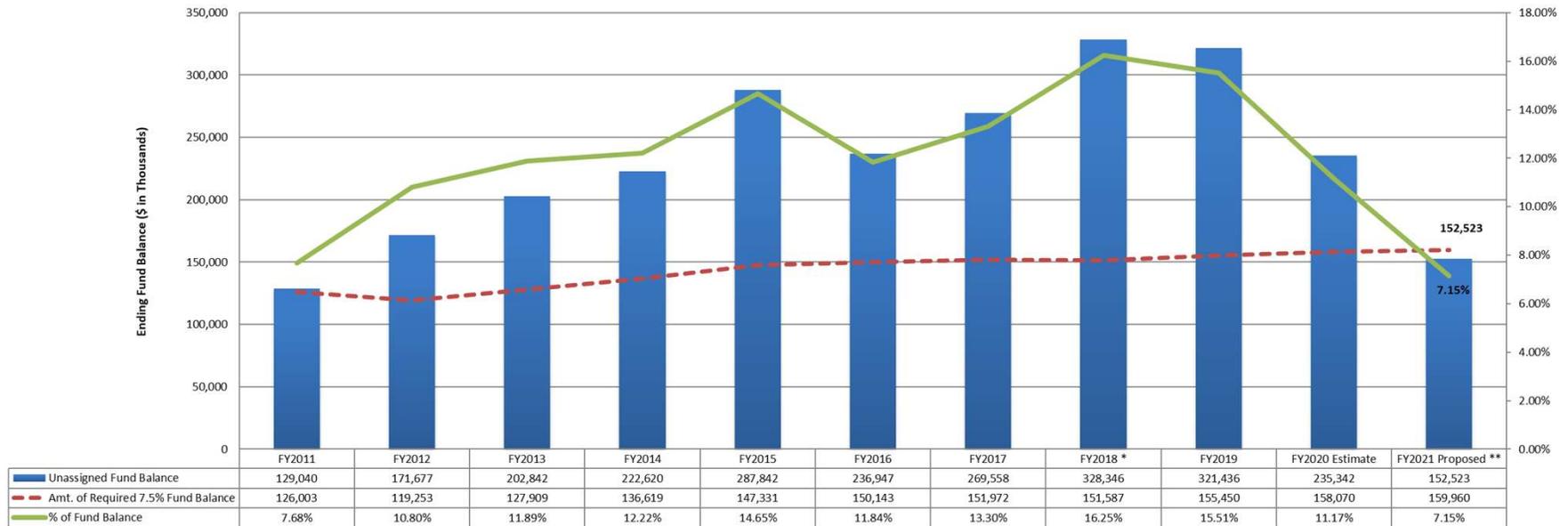
FY2011- FY2021 (\$ in Thousands)



HMEPS	\$ 41,537	\$ 38,662	\$ 45,219	\$ 51,106	\$ 56,813	\$ 60,221	\$ 66,750	\$ 62,526	\$ 61,641	\$ 62,078	\$ 65,951
HFFRF	76,352	61,204	62,141	63,758	93,407	94,121	92,958	82,940	\$ 89,902	81,364	79,796
HPOPS	77,534	65,701	83,526	100,614	110,727	146,216	145,646	131,645	\$ 141,096	148,406	152,857
Pension Contributions	\$ 195,423	\$ 165,566	\$ 190,886	\$ 215,478	\$ 260,948	\$ 300,558	\$ 305,354	\$ 277,112	\$ 292,639	\$ 291,847	\$ 298,604
Change YOY (\$)	8,439	(29,857)	25,320	24,592	45,469	39,611	4,796	(28,243)	15,527	(792)	6,757
Change YOY (%)	4.5%	-15.3%	15.3%	12.9%	21.1%	15.2%	1.6%	-9.2%	5.6%	-0.3%	2.3%

*FY18 Actual excludes \$910 million Pension Obligation Bonds for General Fund.

General Fund Unassigned Ending Fund Balance FY2011 - FY2021



* FY2018 amount required of 7.5% fund balance is adjusted to excludes \$910 million Pension Obligation Bonds.

** To address budgetary crisis caused by COVID-19, the City has undesignated \$20 million from the Budget Stabilization Fund (\$15 million to the General Fund ending fund balance and \$5 million to the COVID-19 Disaster Fund).



General Fund Five Year Forecast FY2021 – FY2025





Overview

- Shows the projected budget gap range based on a conservative and optimistic growth in revenue
- Does not include one-time land sales
- In compliance with Prop 1+H limitations
- Does not include cost to address unfunded OPEB liability
- Pension assumptions based on midpoint of the corridor
- Expenditures include legal mandates, staffing for new facilities, and contractual escalators.



Key Assumptions – Revenue

Revenue Category	FY2021 Proposed	FY2022 - 2025	Comments
Property Tax Growth %	2.4%	(Low) 1.1% to 2.4 % (High)	FY2022 -2025 estimate is based on the maximum allowed revenue by 2004 Proposition 1 and modified by 2006 Proposition H. Range varies using different assumption for CPI and population growth.
Sales Tax Growth %	-0.7%	(Low) 0.74% to 2.48% (High)	FY2022 -2025 estimate derived from econometric models which take into account the sectors of the Houston economy and estimates of income, prices, population and Primary Metropolitan Statistical Area (PMSA) retail sales Range varies using different assumptions for employment and oil prices. Decline due to the impact of COVID-19
Franchise Fees Growth %	-4.1%	(Low) -2.2% to 0.0% (High)	FY2022 -2025 estimate based on historical growth. High range assumes slower decline in franchise fee revenue.
Other Revenue Growth % ⁽¹⁾	-1.4%	(Low) -2.0% to 1.5% (High)	FY2022 -2025 estimate based on historical growth. High range assumes lower decline in Ambulance Supplemental Program.
One-time Sale of Capital Assets (\$mm)	-	-	No one-time land sales included.

(1). Other Revenue Category includes items such as Industrial Assessment, Licenses and Permits, Charges for Services, Interfund Services, Fines and Forfeits

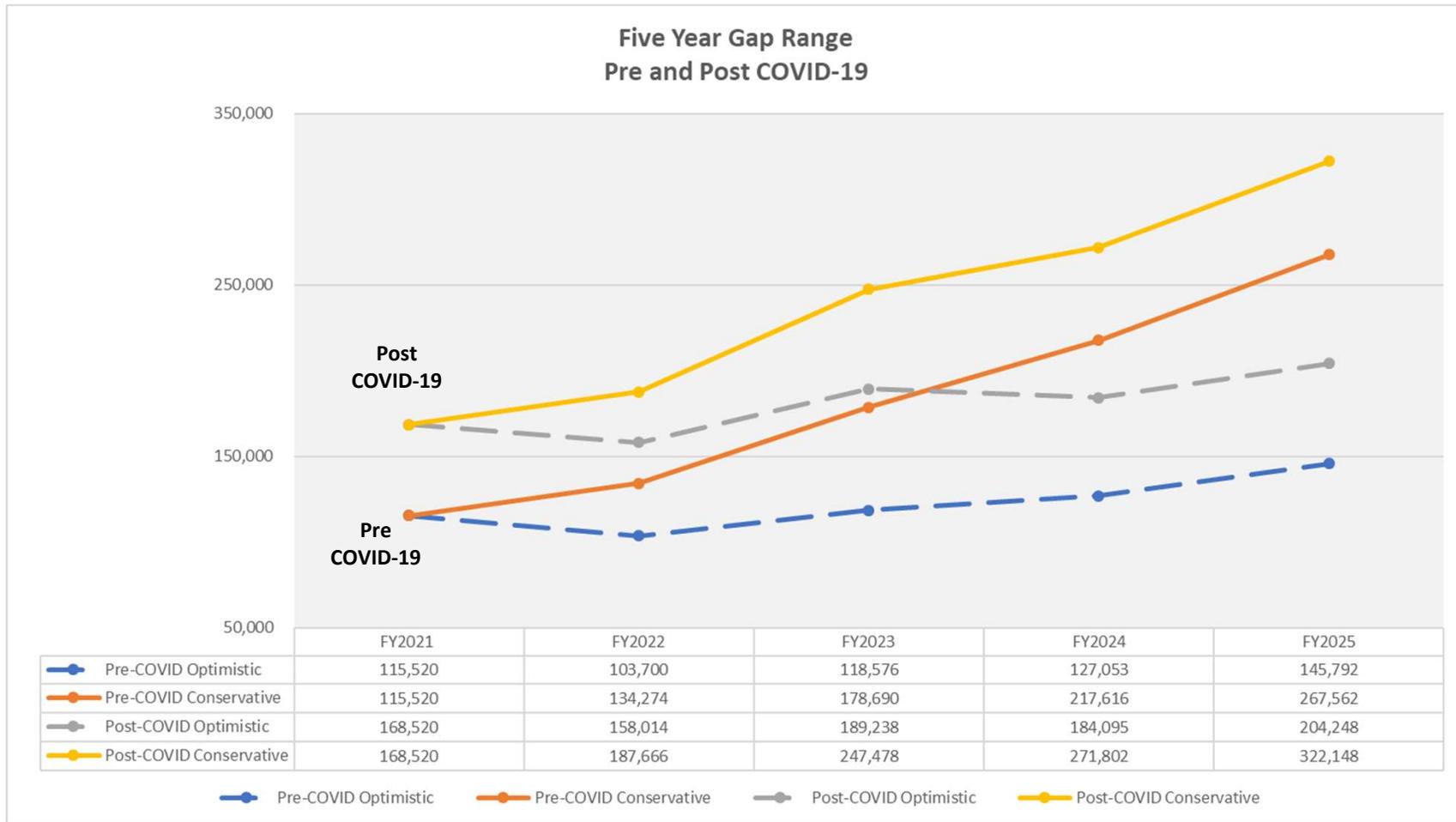


Key Assumptions – Expenditures

Expenditure Category	FY2021 Proposed	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast	FY2025 Forecast	Comments
<u>Personnel:</u>	4.00%	2.00%	1.00%	1.00%	1.00%	FY2021 includes cost of contractually mandated increase for police (3%) and municipal employees (1%)
<u>Pension Contribution:</u>						
HMEPS	8.36%	8.32%	8.44%	8.48%	8.51%	Based on the midpoint of the corridor
HMEPS Legacy Contribution	\$134.5	\$138.2	\$142.0	\$146.0	\$150.0	Legacy liability contribution
HPOPS	31.84%	31.92%	31.98%	32.03%	32.07%	Based on the midpoint of the corridor
HFRRF	32.99%	31.89%	31.89%	31.89%	31.89%	Based on the midpoint of the corridor
<u>Health Benefits:</u>						
Growth%	-1%	7%	7%	7%	7%	Assumes reserved fund balance in Health Benefits Fund is maintained and average expenditure growth.
<u>Budget Stabilization</u>	\$(15M)		\$15M			Undesignated \$15M from the Budget Stabilization Fund. Per the financial policies, will have to replenish in two years.
<u>Total Debt Service and PAYGO (\$M)</u>	\$398.3	\$420.9	\$426.7	\$439.4	\$438.0	

Current Budget Gap FY2021- FY2025

(\$ in Thousands)





Addressing the Gap

- Limitations
 - Property tax cap in City Charter
 - Police and Fire cost make up 57% of General Fund spend
 - Impact of COVID-19
- Short-term
 - Continue working day one to build the fund balance
 - Continue to identify COVID-19 related cost that can be covered through CARES Act that is permissible under the Federal Guidance
 - Continue hiring Control
 - Develop new revenue sources
- Long-term
 - Continue to implement PFM recommendations that are supported by Mayor and City Council